# UTAH OIL AND GAS CONSERVATION COMMISSION

REMARKS WELL LOG ELECTRIC LOGS WATER SANDS LOCATION INSPECTED SUB\_REPORT/abd DATE FILED 6-1-81LAND: FEE & PATENTED STATE LEASE NO. PUBLIC LEASE NO INDIAN DRILLING APPROVED: 6-1-81 SPUDDED IN: COMPLETED: PUT TO PRODUCING: INITIAL PRODUCTION:

GRAVITY A.P.I. GOR:

TOTAL DEPTH:

PRODUCING ZONES:

API.# 43-007-30064

1/4 - 1/4 SEC.

WELL ELEVATION DATE ABANDONED FIELD:

UNIT: CARBON COUNTY WELL NO.

RGE.

10E.

TWP.

155,

LOCATION

FT. FROM (N) (X LINE. 720 '

22

MILLER CREEK CHERTITIA #2

<u> 1980''</u> SEC. **OPERATOR** 

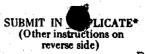
FT. FROM (E) (W) LINE. Resows

RGE.

SEC.

OPERATOR

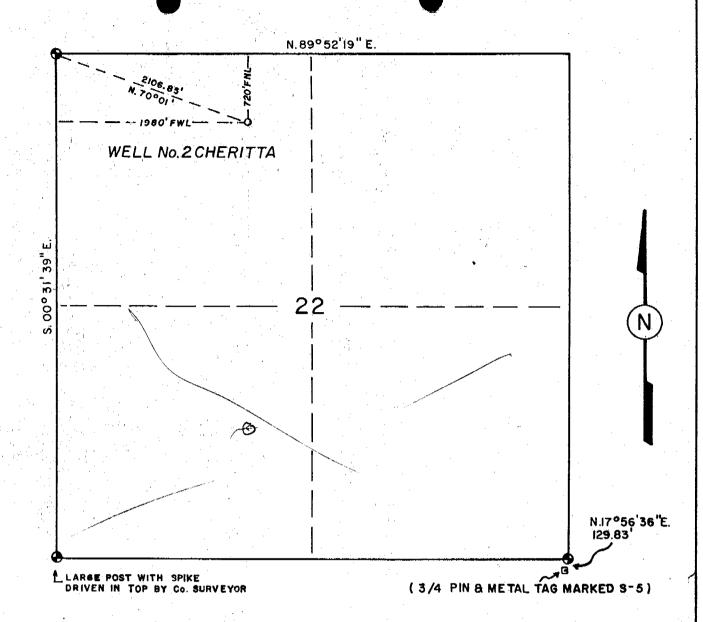
#### STATE OF UTAH DEPARTMENT OF NATURAL RESOURCES DIVISION OF OIL, GAS, AND MINING

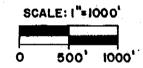


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l Applied Designation and	For		5
Designation and	Serial	No.	

APPLICATION FOR PERMIT TO			<u>Fee</u>	•
	DRILL, DEEP	EN, OR PLUG	- IA T-11	llottee or Tribe Name
Type of Work			N/A	
DRILL XX	DEEPEN 🗌	PLUG BA	CK 7. Unit Agreen	ent Name
Type of Well			N/a_	
Oil XX Gas Other	en e	Single Mul Zone Zon	tiple 8. Farm or Le	ase Name
ame of Operator	:		Miller 9. Well No.	Creek Lease
tah Penn			9. Well No.	
ddress of Operator			Cherit	ta # 2
TTN: J.P. Kyle, 840 Rood Ave	., Grand Junc	tion, CO 81501		
ocation of Well (Report location clearly and in ac-			Wildcat	
neince Neinwi, Sec. 22, T15 <b>5</b> , R10E,	CTW 1980'E	INI WHON' E		., M., or Blk.
t proposed prod_zone	STM INOO L	TVD Y AU F	NE N	Sec. 22
Same	The second second			RIOE, SLM
Distance in miles and direction from nearest town	or post office*	· · · · · · · · · · · · · · · · · · ·	12. County or	
miles South of Price, Utah			Carbon	ı Utah
TO 1	16. 1	No. of acres in lease	17. No. of acres assigned	
location to nearest proposed location to nearest property or lease line, ft. (Also to nearest dried line, if any)	FNL	160	to this well	
Also to nearest drig, line, if any) Distance from proposed location*				
on nearest well, drilling, completed, 3500; NW applied for, on this lease, ft.	of Price #1	Proposed depth 1800	20. Rotary or cable tools	
	OI IIICE #1	1000	Rotary	
Elevations (Show whether DF, RT, GR, etc.) 5520			•	late work will start*
	<u> </u>		June	1, 1981
PI	ROPOSED CASING AN	D CEMENTING PROGRA	M	
Size of Hole Size of Casing	Weight per Foot	Setting Depth	Quantity	of Cement
12 1/4" 9 5/8"	28.00#	80' Surfa	ce 75 Sax 1	hru production
9 3/4" 7"	20.00#	70' Inter		zone
6 1/2" 4 1/2"	10.50#	to depth	INCULCIOC.	ΔΥΙΙΟ
akota Sandstone formations.  I, then drilling fluid will boout 80 feet and cemented with the second safety sub on the second safety saf	e used to dri h returns to ams will be i he derrick fl Kill lines w	<pre>11 the well. T the surface. A nstalled on top oor will provid</pre>	The surface casing blowout prevent of the surface de protection from the blir	ng will be set ber with hydrau casing; and a om pressures an
r gas encountered will be fla Dlume thru a 2-inch line afte	r the pipe ra	d of the blewie		ly checked for
emperatures. 2-inch Fill and r gas encountered will be fla clume thru a 2-inch line after the bottom drill collar at alles of Practices and Procedu	r the pipe ra all times.	d of the blewie ms have been cl	osed. A float v	nly checked for valve will be u
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\*See Instructions On Reverse Side





OF COLONNIN

# CERTIFICATE OF SURVEY

I, EDWARD F CARPENTER, BEING A REGISTERED LAND SURVEYOR

DO HEREBY CERTIFY THAT THE SURVEY OF DRILL SITE LOCATION WELL

No.2 CHERITTA , IN THE NEI/4 NWI/4, SECTION 22, T.15 S., R.10E.,

SALT LAKE MERIDIAN, CARBON COUNTY, UTAH AND THE PLAT THEREOF

WAS MADE UNDER MY SUPERVISION.

Edward & Carpenter EDWARD F. CARPENTER

PE.- L.S. # 1239

NOTE:

SECTION CORNERS ARE ASSUMED FROM FIELD WORK BY AIR PHOTO SURVEYS AND NOT SET OR RECOVERED BY THIS SURVEY.

BASIS OF BEARINGS USC & GS MONUMENTS USED BY AIR PHOTO SURVEYS. PLAT OF THE

WELL No.1 CHERITTA

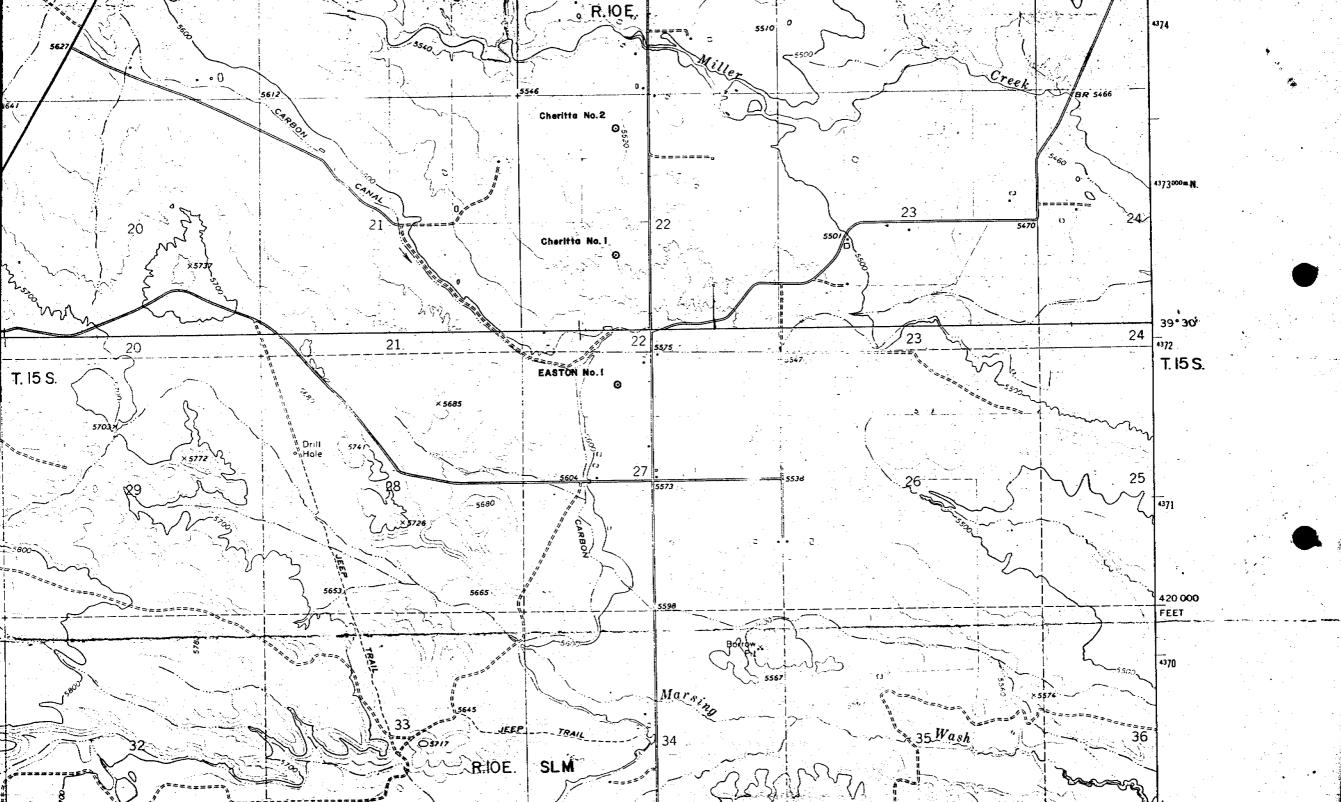
CARBON COUNTY, UTAH

TEMCO LTD.

GRAND JUNCTION, COLORADO

STAKED BY: TEMCO SCALE: I"=1000' DRAWN BY: N.P.B. JOB NUMBER

SURVEYED BY: TEMCO DATE: CHECKED BY: E.E.C.



# DIVISION OF OIL, GAS AND MINING

OF THE STATE OF UTAH

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of Utah, and Prod Utah, he	purchaser who is conducting does, pursuant to the Rules edure of the Division of Ois reby appoint Michael Columbia (1988) 1884 1884 1884 1884 1884 1884 1884 1	ator, transporter, refiner, gasoline or oil and/or gas operations in the State s and Regulations and Rules of Practice l, Gas and Mining of the State of e, whose address is, (his, her or its) e served with notices from said Board,
or from	other persons authorized und	der the Oil and Gas Conservation Act of
and in t immediat	of address of the agent, and he latter case, the designar ely made. This designation	to immediately report in writing, all d any termination of the agent's authority, tion of a new agent or agents shall be of agent, however, shall remain in full new designation agent is filed in id regulations.
Eff	ective date of designation	May 1, 1981
Company	Utah Penn	Address 1901 New Street, Independence, KS 67301
Ву	(signature) A.P.Kyle	Title Representative

MOTE: Agent must be a resident of the State of Utah

DATE: May 29, 1981	
OPERATOR: 118ah Penn	
WELL NO: Cheritta # 2	
Location: Sec. <u>22</u> T. <u>158</u>	R. 10E county: Carlon
File Prepared:	Entered on N.I.D:
Card Indexed:	Completion Sheet:
API Number_	43-007-30064
CHECKED BY:	
Petroleum Engineer:	Uhudez 6/1/81
Director:	
Administrative Aide: <u>As p</u>	r C-3 spacing; ok on budrys
APPROVAL LETTER:	
Bond Required:	Survey Plat Required:
Order No.	_ 0.K. Rule C-3
Rule C-3(c), Topographic Except within a 660' radi	ion - company owns or controls acreage stood proposed site
Lease Designation <b>300</b>	Plotted on Map
Approval Le	tter written
Hot Line P.I.	

June 3, 1981

Utah Penn 840 Rood Ave. Grand Junction, Colorado 81501

Attention L J.P. Kyle

Re: Well Nol.Cheritta #2

Sec. 22, T. 15S, R. 10E, NE NW

Carbon County, Utah

Insofar as this office is concerned, approval to drill the above referred to oil well is hereby granted in accordance with Rule C-3, General Rules and Regulations and Rules of Practice and Procedure.

Should you determine that it will be necessary to plug and abandon this well, you are hereby requested to immediately notify the following:

MICHAEL T. MINDER - Petroleum Engineer

Office: 533-5771 Home: 876-3001

Enclosed please find Form OGC-8-X, which is to be completed whether or not water sands (acquifers) are encountered during drilling. Your cooperation in completing this form will be appreciated.

Further, it is requested that this Division be notified within 24 hours after drilling operations commence, and that the drilling contractor and rig number be identified.

The API number assigned to this well is 43-007-30064.

Sincerely,

DIVISION OF OIL, GAS, AND MINING

Michael T. Minder

M. Miluder

Petroleum Engineer

MTM/ko cc:

# MILAGRO ENERGY RESOURCES COMPANY P.O. BOX 934 ALEUQUERQUE, NEW MEXICO 87103

December 16, 1982



**DIVISION OF** 

OIL GAS & MINING

Mr. Norm Stout
State of Utah Natural Resources
and Energy
Oil, Gas & Mining Division
4241 State Office Building
Salt Lake City, UT 84114

RE: Chiaretta #2

Dear Mr. Stout:

In accordance with our telephone conversation of December 16, 1982, I have attached hereto the following:

- 1. A copy of the Farmout Agreement between Milagro Energy Resources Company and Utah Pennsylvanian Oil Company.
- 2. A copy of the notice of default sent by Milagro Energy Resources Company to Utan Pennsylvanian Oil Company setting forth the various matters in which they were in default of the Farmout Agreement.
- 3. An affidavit by me as managing partner of Milagro Energy Resources Company swearing that Utah Pennsylvanian Oil Company failed to cure the default under the Farmout Agreement and thereby lost their rights under the agreement.

Milagro Energy Resources Company has an assignment of approximately 10,000 acres of leases in the Miller Creek area of Carbon County Utah, all of which is contained in Township 15 South, Range 10 East, SIM. Within the 10,000 acres is contained the Chiaretta #2 permit which covers the NW4 of Section 22 and the Price #1 permit which covers the SE4 of Section 22. On April 12, 1982, Milagro Energy Resources Company entered a Farmout Agreement with Utah Pennsylvanian Oil Company by which Milagro agreed to allow Utah Penn to operate on a checkerboard of the Miller Creek area. Utah Penn defaulted on the Farmout Agreement in the manner more specifically stated in the notice of default. Because of the notice we gave them of the default and their failure to cure the default, Milagro has taken over the operation of the property.

Mr. Norm Stout December 16, 1982 Page Two

Ben Buh, as our Petroleum Engineer, will be submitting the sundry form asking for a change of operator and abandonment of the Utah Penn location, as well as requesting a new location on the NW4 of Section 22. This will be coming directly from Mr. Buh.

Very truly yours,

revis o Campbe

LOC/mls Enclosures FARMOUT AGREEMENT

hoe daying

THIS AGREEMENT made and entered into this \_\_\_\_\_\_\_\_ day of April, 1982, by and between MILAGRO ENERGY RESOURCES COMPANY, hereinafter called "M.E.R.C." and UTAH PENNSYLVANIAN OIL COMPANY, hereinafter called "UTAH PENN."

#### WITNESSETH

WHEREAS the parties hereto have arrived at an Agreement whereby M.E.R.C. is to assign to UTAH PENN certain of its right, title and interest in and to the oil and gas mining leases (or any fractional interest therein) owned by M.E.R.C. covering a portion of the lands described in Exhibit "A" attached hereto and made a part hereof subject to the terms and conditions of this Agreement:

NOW THEREFORE, it is agreed between the parties hereto as follows:

- 1. <u>DEFINITIONS</u>. The following definitions shall apply to certain terms used herein:
- and described by Exhibit "A" attached hereto insofar and only insofar as said leases cover the lands therein described that have been allocated to UTAH PENN by checkerboarding as set forth in Clause 10 herein, from the surface to one hundred feet (100') below the base of the Morrison Formation.
- 1.2 <u>Checkerboarded Parcels.</u> The one hundred sixty (160) acre parcels selected by UTAH PENN in accordance with Clause 10 of this Agreement.
- 1.3 <u>Contract Depth.</u> With respect to the drilling of the test wells and any further checkerboarded parcel wells, this terms means to a depth sufficient to test the Morrison sandstone.
- 1.4 <u>Drilling Costs.</u> This term means all monies actually expended for drilling, completing, testing, fracturing, abandoning, third-party services, engineering and geological fees for drilling or reworking a well for the recovery and taking of production of petroleum substances, including the costs of staking locations, permitting building

of roads, pads, pits and costs of obtaining all necessary governmental approvals.

- 1.5 <u>Complete.</u> This term means, in the case of an oil well, the installation of all equipment and materials necessary to enable sustained production and shall include third-parties' services for supervision, well-head and pumping equipment, flow lines and tanks and, in the case of a gas well, shall mean completion through to and including the installation of the well-head.
- 1.6 Operating Costs. This term means all monies necessarily expended exclusive of drilling and completion costs to operate a well for the recovery of petroleum substances. Operating costs shall include only expenditures directly related to a particular well and shall include no allocation for general and administrative overhead or legal or accounting fees.
- expended to complete the well, including without limitation, the cost of acquiring casing to be left in the hole, exclusive of surface and intermediate casing, the cost of acquiring and installing tubing, well-head equipment, flow lines and other equipment, materials and services necessary to complete the well for the taking of production of petroleum substances from the well.
- 1.8 M.E.R.C. Interests. The M.E.R.C. ownership in the oil and gas leases as set out in Exhibit "A".
- 1.9 M.E.R.C. Overriding Royalty. This term shall have the meaning stated in Clause 6.2 hereof.
- 1.10 Payout. This term shall have the meaning stated in Clause 9 hereof.
- 1.11 <u>Lessee</u>. Lessee or Lessees as used herein shall mean George J. Kirn, Christian F. Murer, Blake-Berry-Blake Corporation, Jack E. Blake Jr., Kip Cotner, Michael Cole and The Estate of Morris N. Adelman which individuals some or all of whom are the Lessees on the leases set out in Exhibit "A" hereto.
- 2. PERFORMANCE PAYMENT. Upon the exection of this Agreement,
  UTAH PENN shall deliver to an escrow agent of M.E.R.C.'s choice

Ten Thousand Dollars (\$10,000.00) in cash or cashier's check as an earnest money payment hereunder. Immediately upon the execution of Agreement, UTAH PENN will select the five locations out of checkerboarded locations to be the five test wells and will immediately order drilling title opinions on these five locations. Upon the issuance of each drilling title opinion that shows that M.E.R.C. will be able to assign good and merchantable title in the oil and gas leases or portion of oil and gas leases that are described in Exhibit "A" hereto that are involved in each 160 acre test well location, UTAH PENN shall pay over to-Seventeen Thousand Dollars (\$17,000.00) in cash or cashier's check for a total of Eighty-five Thousand Dollars (\$85,000.00), including the earnest money payment. If the drilling title opinions show that M.E.R.C. cannot deliver such good and merchantable title and the title defects cannot be cured within thirty (30) days, then the earnest money will be returned to UTAH PENN and this Agreement will be cancelled and terminated. In the event each of the five test wells contracted for herein are drilled in accordance with this Agreement, such Eighty-five Thousand Dollars (\$85,000.00) shall become a portion of the drilling completing and operating costs of the first producing well or wells drilled hereunder, and shall be repaid to UTAH PENN out of production prior to the conversion

3. TITLE. Without delay after the execution of this Agreement, M.E.R.C. shall deliver to UTAH PENN copies of such documents now in its files evidencing its ownership of the oil and gas leases on the checkerboarded parcels. UTAH PENN shall have the obligation to obtain a drilling title opinion at its sole expense to each one hundred sixty (160) acres for each well to be drilled hereunder with all reasonable dispatch in order for it to be able to perform its obligation hereunder. It is understood between the parties that M.E.R.C. does not have a leasehold estate, ownership, or rights in all of the oil and gas on all of the

of the overriding royalty of M.E.R.C. to the working interest as provided

for herein. In the event UTAH PENN does not drill the five test wells in

accordance with the terms hereof, the Eighty-five Thousand Dollars

(\$85,000.00) shall be forfeited to M.E.R.C. as partial damages for such

breach.

property within the area of interest as set out in Clause 19 herein, and that it may be necessary for M.E.R.C. or UTAH PENN to obtain additional leases, negotiate voluntary pooling or obtain forced pooling through the State of Utah. All title information, petroleum title opinions and documents of title obtained by UTAH PENN shall be immediately furnished to M.E.R.C.

4. TEST WELLS. Within thirty (30) days after the approval of five drilling title opinions for five test wells, which drilling title opinions UTAH PENN agrees to order immediately upon the execution of this Agreement, UTAH PENN agrees to commence the drilling of five test wells for oil and gas upon any five of the locations marked on Exhibit "B" attached hereto.

diligence and to have the five test wells completed no later than September 30, 1982. The test wells shall be drilled to a depth sufficient to thoroughly test the Dakota Formation expected to be encountered at a depth of approximately one thousand six hundred fifty feet (1,650'), except that one of the five wells shall test the Morrison Formation expected to be encountered at a depth of approximately two thousand two hundred feet (2,200').

5. <u>DRILLING COSTS.</u> The cost of drilling operating and completing the said test wells and any subsequent wells drilled hereunder and all other costs and expenses incurred in connection with the development and operation of the property shall be borne solely by UTAH PENN and such wells shall be entirely free of cost to M.E.R.C., unless M.E.R.C. exercises its option in Clause 12 herein.

### 6. ASSIGNMENT OF INTEREST.

6.1 Upon the execution of this Agreement, M.E.R.C. agrees to place in escrow with a title company in Carbon County, Utah, assignments or partial assignments of the leases set out in Exhibit "A" covering the 160 acres permitted for the five test wells from the lessee to M.E.R.C. and from M.E.R.C. to UTAH PENN. Such assignment to UTAH PENN shall be without warranty of title assigning to UTAH PENN oil and gas leasehold estates to the Contract Depth. After completion of each of the test wells

above-mentioned, as a commercial well, the escrow agent shall deliver such Morrison (MC) assignments to UTAH PENN. In the event a commercial well is not made and the well is plugged and abandoned, such assignments shall be delivered back to WTAH PENN. Such assignments are to be specifically subject to the terms and conditions of this Agreement. The assignments shall reserve to M.E.R.C. all oil and gas below the Contract Depth, together with the right of ingress and egress for the purpose of developing and operating said premises for oil and gas from the horizons below the Contract Depth. M.E.R.C. agrees to negotiate in good faith UTAH PENN's future right to explore for oil or gas on the formations below the Contract Depth on the checkerboarded tracts assigned to UTAH PENN hereunder.

- 6.2 M.E.R.C. shall accept and reserve to itself from any assignment to UTAH PENN hereunder an Overriding Royalty of four percent (4%) of the oil and gas produced, saved and sold from the M.E.R.C. working interest in the leases assigned hereunder as an Overriding Royalty free and clear of all costs of drilling, development and operation, except applicable taxes. The M.E.R.C. Overriding Royalty shall be convertible into a working interest, at the option of M.E.R.C., as provided herein.
- 7. WELL INFORMATION. UTAH PENN shall maintain the services of a qualified geologist and/or engineer in daily attendance at the drillsites In the event a showing of oil or gas is of all drilling wells. encountered at any depth in any wells drilled hereunder, UTAH PENN shall immediately notify M.E.R.C. thereof. After any wells drilled hereunder have reached their total depth, UTAH PENN agrees to make an electric survey of the well, wherein UTAH PENN agrees to be performed no less than FDC CNL gamma ray logs. UTAH PENN agrees to furnish M.E.R.C. concurrently as run, a complete copy of each electrical survey made and shall promptly furnish to M.E.R.C. a complete copy of the drillers' log sworn to by someone having actual knowledge of the facts and a complete copy of each electrical survey log on a scale of not less than two inches per one hundred feet (100') from the bottom of the surface casing to the total depth of the well, as to each well drilled hereunder. information, logs, reports and samples shall be complete to the final total depth of the well and all such information shall, in the absence of

other instructions from M.E.R.C., be delivered to the office of M.E.R.C. designated to receive such information. All information shall be submitted only to M.E.R.C. and no others except contributors to the drilling costs of the well for a period of six (6) months after completion. UTAH PENN shall not abandon the well as a dry hole until UTAH PENN has furnished M.E.R.C. a copy of such electrical surveys and thereafter has given M.E.R.C. at least forty-eight (48) hours notice of UTAH PENN's intention to abandon. Should M.E.R.C. wish to complete and UTAH PENN does not, then M.E.R.C. shall have the right to complete and in doing so shall be entitled to recover three hundred percent (300%) of its costs of completion from production of the well.

During the course of the drilling and completion of the test wells and any other wells drilled hereunder, UTAH PENN shall mail weekly drilling reports to M.E.R.C. showing all formations encountered, the depths at which they were encountered during the preceeding week for each well drilled on the property, and UTAH PENN will furnish M.E.R.C. with a complete set of cuttings and core samples taken during such time properly labeled as to depth and number. M.E.R.C. through its agents and representatives, at all times, shall have access to the derrick floor to inspect the drilling of the wells drilled hereunder and shall be notified in sufficient time to have a representative present to witness tests of showings encountered, production tests and measurements for final depth. UTAH PENN shall have the obligation to make good and sufficient cores of the Dakota Formation on either the first or second well. Good and sufficient cores shall mean cores adequate for a core lab to make a determination of whether the Dakota Formation should qualify as a tight sand formation under the Natural Gas Policy Act. At its own election and at its own risk and expense, M.E.R.C. shall have the right to cause such additional electric log tests to be made prior to completion or abandonment of any well. If M.E.R.C. determines that it wishes such additional electric logs, it must give UTAH PENN notice or sufficient time so that the logging can be done at the same time as UTAH PENN's logging. If directional or straight hole surveys or core analysis are made, UTAH PENN shall furnish M.E.R.C. complete reports thereof.

Wil

M.E.R.C. shall at all times have access to the premises covered hereby through its agents and representatives to inspect operations thereon and UTAH PENN, upon request, shall furnish M.E.R.C. full information in regard thereto in addition to the specific information required in connection with the wells drilled hereunder. All notices and information to be given M.E.R.C. pursuant to the foregoing provisions shall be given to M.E.R.C. or to such other of its representatives as M.E.R.C. shall designate.

#### 8. DISPOSITION OF PRODUCTION.

- 8.1 In the event production is secured on the premises, UTAH PENN will, during the continuance thereof, furnish to M.E.R.C. at its offices on or before the thirtieth (30th) day of each month a statement showing the gross estimated production of gas, oil and water from each well on the premises, the number of days each well was produced and the pipeline runs therefrom for the preceeding month. M.E.R.C. shall have access at all reasonable times to UTAH PENN's production and marketing recording pertaining to these premises.
- 8.2 M.E.R.C. shall have access to said land, to the wells, equipment, tanks and appliances of UTAH PENN for the purpose of testing the production from the wells thereon, at its own expense and risk. M.E.R.C. shall have the right to examine the run tickets and other records pertaining to the production. Upon request, UTAH PENN shall furnish to M.E.R.C. a true and correct copy of all gages and run tickets. UTAH PENN agrees to furnish M.E.R.C. true copies of all production reports, potential test forms and any other reports which may be made by UTAH PENN to the regulatory body of the State of Utah, or to any governmental agency at the same time such reports are delivered to such body or agency.
- 8.3 No contract for the sale of gas from the property shall be made by UTAH PENN without the advice, consent and approval of M.E.R.C.
- 8.4 M.E.R.C.'s interest in the oil or gas produced from the property shall be delivered to it free of expense or to its credit in the pipeline which may be connected to, from or upon the property provided. However, M.E.R.C., if it elects, may take its proportionate part of said oil or gas so produced and saved in kind, and its option to do so shall

extend for the term of this Agreement and may be exercised as often as M.E.R.C. shall desire to exercise it by giving thirty (30) days notice in writing to UTAH PENN.

9. PAYOUT. The term "payout" is defined as the recovery from production of an amount equal to the sums expended by UTAH PENN as costs for drilling, completing and operating each well or abandoning each well. Each well shall stand on its own and pay out will be computed only to recover the costs from production from that particular well. UTAH PENN shall be entitled to the recover from production only the sums expended by it relating to the drilling, completion and operation of a well successfully completed as a producing well. Drilling costs are not recoverable for wells drilled that do not result in a successful completion of a producing well. The term "payout" is subject to the specific agreement contained in Paragraph 2 herein with regard to the Eighty-five Thousand Dollar (\$85,000.00) performance payment.

If any well is abandoned before completion as a successful producer, UTAH PENN shall be responsible for all of the costs of plugging and abandoning the well, except as to a well which M.E.R.C. has elected to complete without participation by UTAH PENN under Clause 8 hereunder.

UTAH PENN shall be entitled to receive all of the proceeds of production from a well until pay out as herein defined, except in a situation in which M.E.R.C. has elected to complete a well without participation of UTAH PENN, in which event, M.E.R.C. will be entitled to all of the proceeds of production until M.E.R.C. has recovered three hundred percent (300%) of the completion costs, following which UTAH PENN will be entitled to receive all of the proceeds of production from the well until pay out as herein defined. However, proceeds from production shall be less all royalty and overriding royalty interests burdening the property including the overriding royalty interest of M.E.R.C.

10. CHECKERBOARDING. The parties have checkerboarded twenty-two (22) 160 acre tracts, which tracts are set out in Exhibit "B" attached hereto and made a part hereof. The tracts not yet checkerboarded will be checkerboarded at a later date, at the mutual agreement of the parties, but in any event, the balance of the checkerboarding shall be done by the

time the tent/new well is drilled on the property described in Exhibit "A". "New well" means any well drilled after the execution of this Agreement. At the time of the next checkerboarding, M.E.R.C. shall have the first choice of parcels. All tracts selected by UTAH PENN shall be subject to this Agreement. All tracts selected by M.E.R.C. shall not be

subject to this Agreement.

In its selection of tracts upon which it will drill wells, UTAH PENN has selected the SWA of Section 27 and the SWA of Section 26. There is located on the quarter Sections The AEC #3 well and The AEC #1 well, respectively. M.E.R.C. shall retain all rights in and to these wells, including the right of ingress and egress and the right to do all things necessary to cause these to be and maintain them as producing wells, including the right to run part of the gas gathering system to these wells. The parties recognize that there is one hundred sixty (160) acre spacing in the area and that M.E.R.C. does not have all of the leases in the area so that a party who selects a particular one hundred sixty (160) tract may have to negotiate a new lease, obtain voluntary pooling or obtain forced pooling under the laws of the State of Utah.

wells, UTAH PENN agrees to continue drilling on the tracts which it selected in the checkerboarding process until the entire number of tracts it selected to the contract depth have been drilled out. After the completion of the five (5) test wells, UTAH PENN must proceed to drill up the remainder of the tracts it has selected by commencing a new well every ninety (90) days. At any time UTAH PENN fails to comply with the provisions of this Section, this assignment shall terminate, and all rights granted to UTAH PENN shall be forfeited and revert to M.E.R.C.; provided, however, that in such case UTAH PENN shall have the right to retain, subject to all the terms and conditions of this Agreement, each well capable of producing in paying quantities so drilled by UTAH PENN. UTAH PENN shall also be entitled to retain around each such well acreage in an amount equal to the applicable spacing regulations then in force, not to exceed in any event, one hundred sixty (160) acres as to each well

and in a reasonably compact form acceptable to M.E.R.C. UTAH PENN's rights in such retained acreage shall be limited to the Contract Depth.

## 12. M.E.R.C.'s WORKING INTEREST, UTAH PENN'S OVERRIDING ROYALTY.

12.1 At the time of well payout and at the time of field payout, M.E.R.C. and UTAH PENN shall have the following rights regarding Working Interest and Overriding Royalties.

12.1.1 M.E.R.C. reserves the right and option to convert the M.E.R.C. Overriding Royalty to a twenty percent (20%) carried working interest as to each well drilled hereunder at the time that well pays out.

12.1.2 Upon M.E.R.C. converting its four percent (4%) Overriding Royalty, UTAH PENN shall have the right to receive M.E.R.C.'s four percent (4%) Overriding Royalty, which shall be prior and superior to M.E.R.C.'s twenty percent (20%) Working Interest Backin.

12.1.3 At the time the Lessees exercise their option to convert their five and one-half percent (5 1/2%) Overriding Royalty to a seventeen percent (17%) Working Interest Backin, both UTAH PENN and M.E.R.C. shall have the right to two percent (2%) each of this Overriding Royalty interest which shall be prior and superior to all working interests, except the working interest of the Lessees as set out in the Operating Agreement to which both UTAH PENN and M.E.R.C.'s two percent (2%) Overriding Royalty shall be subject and inferior to.

12.1.4 In the event UTAH PENN determines to finance the drilling of its own wells, i.e. to pay the working interest itself, then it shall not have the right to M.E.R.C.'s four percent (4%) Overriding Royalty as set out in 12.1.2 above. It shall be deemed that UTAH PENN is drilling its own well at anytime that it pays at least fifty percent (50%) of the cost of drilling a well.

12.2 At any time from the commencement of this Agreement through the completion of the tenth (10th) well drilled on the property by UTAH PENN, M.E.R.C. has a continuing option to elect to take a twenty-five percent (25%) paid working interest in all of the subsequent wells to be drilled by UTAH PENN on the property. Such right to a twenty-five percent (25%) paid working interest shall not be in any of the first five wells drilled by UTAH PENN, but may commence in any wells from the sixth well

and thereafter. Upon giving such notice, M.E.R.C. shall designate which well after the fifth well it desires to participate in. At any time M.E.R.C. elects not to participate in a well after having commenced to participate, then it shall lose its right to participate in any further wells drilled by UTAH PENN. Such paid working interest shall have no effect on M.E.R.C.'s four percent (4%) overriding royalty, nor on the conversion of the four percent (4%) overriding royalty to a twenty percent (20%) carried working interest. However, at the time M.E.R.C. elects to convert its four percent (4%) overriding royalty to a twenty percent (20%) working interest, both UTAH PENN's and M.E.R.C.'s paid working interest shall be reduced pro rata. Further, at such time as the underlying lessee's overriding royalty converts to a seventeen percent (17%) carried working interest, there will be no effect on M.E.R.C.'s twenty percent (20%) carried working interest, but both UTAN PENN's and M.E.R.C.'s paid working interest will further be reduced pro rata-

Should UTAH PENN, following the completion of the test wells above-mentioned, hereafter elect not to pay rentals required to continue in force any lease covered by this Agreement, or to surrender any such lease, UTAH PENN shall give M.E.R.C. written notice of such election and ample time to permit M.E.R.C. to protect and preserve said lease hold estate and M.E.R.C. after receiving said notice shall have sixty (60) days to notify UTAH PENN of its election to accept an assignment of UTAH PENN's interest therein, and if it so elects, UTAH PENN shall assign such interests therein to M.E.R.C. In the event, at the time UTAH PENN elects to surrender a lease, the lease has been producing oil or gas, M.E.R.C. may go upon said premises and make and conduct such tests and operations as it sees fit in connection with the conduct of such tests or operations, M.E.R.C. may use without charge, material and equipment belonging to UTAH PENN then in or upon said premises, but M.E.R.C. shall make and conduct such tests and operations at its own risk and expense. During the sixty (60) day period hereby allowed for making such tests, M.E.R.C. may, if it desires, elect to accept an assignment of said lease from UTAH PENN and any of the wells and materials therein and thereon, or may, if it desires, elect to accept an assignment of the lease of said lease, but to accept only certain of the wells thereon or none of the wells, and thereupon, UTAH PENN shall plug and abandon the wells not accepted and shall retain title to all materials recovered and shall assign to M.E.R.C. all of UTAH PENN's interest in the wells accepted and shall be paid by M.E.R.C. the salvage value of the material and equipment necessary to be left in said wells or on said premises for use in the operation of the wells so accepted. If M.E.R.C., within the time provided, shall not elect to accept an assignment of said lease, UTAH PENN shall plug and abandon all wells thereon, retaining title to all materials and equipment, and may thereupon abandon the lease.

estates covering the checkerboarded property in full compliance with the expressed and implied terms, conditions and convenants thereof, and gives to M.E.R.C. the full right to enforce all the terms and conditions of said leases, both expressed and implied either along or in conjunction with the lessees or mineral owners. UTAH PENN agrees to protect and preserve the said estates from any and all liens, judgments and other claims whatsoever created by T. W.M.

12.3. Attached hereto as Exhibit C is a Schedule of Interests which shows the method of calculation and priorities of the rights set out in 12.1 and 12.2 herein.

### 13. ABANDONMENT AND SURRENDER.

13.1 If at any time UTAH PENN's production on said land shall decline to such an extent that UTAH PENN does not desire to operate it any longer, UTAH PENN shall give M.E.R.C. thirty (30) days written notice of UTAH PENN's intention to abandon and surrender UTAH PENN's interest in said property. If within said thirty (30) days M.E.R.C. shall elect to take over such interest, UTAH PENN shall assign to M.E.R.C. all its right title and interest in the property.

13.2 If at any time UTAH PENN's production on said land shall cease from any cause, and if UTAH PENN fails to commence another well or commence reworking operations within ninety (90) days, its rights under this Agreement shall terminate as to that well and one hundred sixty (160) acres assigned to it and shall revert to M.E.R.C. If UTAH PENN

commences a well or reworking operations within said ninety (90) day period, and thereafter ceases drilling for sixty (60) consecutive days before it completes said well, or a subsequent well as a producer of gas or oil in paying quantities, its rights hereunder shall terminate and revert to M.E.R.C. as to the one hundred sixty (160) acres involved.

oil or gas in any quantity shall be abandoned, and no materials shall be removed therefrom by UTAH PENN, unless UTAH PENN has given M.E.R.C. ten (10) days written notice of its intention to do so, and if within said ten (10) days M.E.R.C. shall elect to take over such well, UTAH PENN shall assign to M.E.R.C. all its right, title and interest in said lease insofar as it covers the acreage in the drilling or proration unit on which such well is located, provided, however, that nothing in this Paragraph shall be construed to modify or affect M.E.R.C.'s right to take over the lease under the two preceding Paragraphs of this Section when they are applicable.

13.4. If M.E.R.C. takes over said lease or a portion thereof under the terms of this Section and desires to purchase materials and equipment of UTAH PENN thereon, it shall have the right to do so upon paying UTAH PENN the value of such material or equipment, which value shall be salvage value less the estimated cost of recovering it. UTAH PENN shall have the right to salvage and move from said premises any of the material and equipment of UTAH PENN's which M.E.R.C. does not desire to use after it takes over said premises.

14. COMPLIANCE WITH LAWS, RULES AND RECULATIONS. UTAH PENN shall comply with and require that all of UTAH PENN's contractors and sub-contractors comply with, any and all applicable laws and regulations, federal, state and local, and with the requirements of each regulatory body or official asserting jurisdiction over UTAH PENN's operations hereunder. One copy of all reports pertaining to operations by UTAH PENN hereunder, including application for any permit or authorization for such operations filed with any governmental authority, shall be delivered to M.E.R.C. without delay.

any well on the checkerboarded property, UTAH PENN shall obtain, at UTAH PENN's expense, insurance policies as outlined below to cover all operations to be performed on such lands. UTAH PENN shall furnish to M.E.R.C. for approval prior to commencement of such operations hereunder, certificates of insurance signed by authorized representatives of the insurance company certifying to insurance coverage in minimum amounts as follows:

15.1 Insurance, which shall comply with all applicable workman's compensation, employer's liability and occupational disease laws, shall cover all or UTAH PENN's employees engaged in any work performed under this Agreement.

15.2 Comprehensive general public liability insurance with bodily injury limits not less than \$500,000.00 for one person and \$1,000,000.00 for one accident and with a property damage clause of not less than \$250,000.00 for one accident, shall include coverage for all liability assumed by UTAH PENN under the terms of this Agreement with limits of liability not less than those set out above.

15.3 Such certificates of insurance shall contain statement that said insurance coverage shall not be cancelled or changed without at least ten (10) days prior written notice to M.E.R.C. Should the insurance coverage be allowed to terminate or be materially changed or cancelled during the term of this Agreement, all of UTAH PENN's rights to earn hereunder shall terminate, unless new insurance coverage is obtained and certificates furnished to M.E.R.C. meeting their requirements first set out for the certificates within the ten (10) day period following notice by the insuror to M.E.R.C. that the existing insurance coverage has been materially changed or cancelled. UTAH PENN shall determine that insurance coverage obtained by UTAH PENN and set out in the certificate furnished to M.E.R.C. is sufficient to give protection from and for acts of UTAH PENN's contractors and sub-contractors, or require that such contractors and sub-contractors have equivalent coverage.

#### 16. ARBITRATION.

between the parties hereto arising out of or in connection with this Agreement as to the existence, construction, validity, interpretation or meaning, performance, non-performance, enforcement, operation, breach, continuance, or termination thereof, including the question of whether there is a dispute or controversy, shall be submitted to arbitration pursuant to the following procedure:

Writing after the controversy arises, which demand shall include a statement of the matter in controversy, and a copy of which demand shall be sent to the nearest office of the American Arbitration Association to Denver, Colorado, together with a request for arbitration and a request for the names of the arbitrators available in Denver, Colorado, competent to arbitrate Farmout Agreement disputes.

16.1.2 Within ten (10) days after receipt by the parties hereto of the list of arbitrators, the parties shall agree upon an arbitrator or in default thereof, such arbitrator shall be named forthwith by the Arbitration Committee of the American Arbitration Association.

16.1.3 Each party shall bear its own arbitration costs and expenses.

16.1.4 The arbitration hearing shall be held at Denver, Colorado, on twenty (20) days' notice to the parties, the arbitration rules and procedures of the American Association or Arbitration shall be incorporated by reference therein and the law of evidence of the State of Colorado shall govern the presentation or evidence therein.

16.1.5 The arbitration hearing shall be concluded within thirty (30) days unless otherwise ordered by the arbitrator and the award thereon shall be made within ten (10) days after the close of the submission of evidence. An award rendered by the arbitrator shall be final and binding on all parties to the proceeding during the period of this Agreement, and judgment on such award may be entered by either party in the highest court, state or federal, having jurisdiction.

16.2 The parties stipulate that the provisions hereof shall be a complete defense to any suit, action, or proceeding instituted in any federal, state, or local court or before any administrative tribunal with respect to any controversy or dispute arising during the period of this Agreement and which is arbitrable as herein set forth. The arbitration provisions hereof shall, with respect to such controversy or dispute, survive the termination or expiration of this Agreement.

16.3 Nothing herein contained shall be deemed to give the arbitrator any authority, power, or right to alter, change, amend, modify, add to, or subtract from any of the provisions of this Agreement.

- 17. COVENANT NOT TO SUE. UTAH PENN shall obtain and furnish to M.E.R.C. a covenant on the part of Jerome Willis, Utah Pennsylvanian Oil Company, Penco, Inc., and all principals of both corporations a covenant not to sue M.E.R.C. for any acts which occurred at any time prior to the execution of this Agreement.
- 18. RELATION OF PARTIES. No association, partnership or joint venture is created or intended to be created by this Farmout Agreement.

  UTAH PENN shall not be the contractor, agent or representative of M.E.R.C.
- of the leases set forth in Exhibit "A" and one mile additional in all directions, shall be the Area or Interest. In the event UTAH PENN obtains any oil and gas leases within the Area of Interest, such leases shall be obtained for the benefit of M.E.R.C. In the event such leases are within UTAH PENN's checkerboard land, then such leases shall be, insofar as they are within the checkerboard land, subject to this Agreement. Any leases obtained within the area of interest that are not within UTAH PENN's checkerboard land shall not be subject to the terms of this Agreement and shall be held for the benefit of M.E.R.C.
- 20. COMPLIANCE WITH LEASE OBLIGATIONS. UTAH PENN shall comply with the expressed and implied obligations of each lease made subject to this Agreement insofar as such obligations are applicable to the lands and depths UTAH PENN may earn hereunder, provided that UTAH PENN may be relieved of the burden of compliance with a lease obligation including the obligation to reimburse M.E.R.C. for a payment to be made by delivering to

M.E.R.C. a written release of its right to earn an interest in any such lease under this Agreement at least thirty (30) days prior to the date such lease obligation is due.

- 21. RESTRICTION ON ASSIGNMENT. Any leases assigned to UTAH PENN hereunder shall not be amended, altered, modified, extended, renewed, assigned, or encumbered in any manner, which would diminish the interest of M.E.R.C., without the prior written consent of M.E.R.C. The rights of reverter and the rights to reassignment retained herein by M.E.R.C. shall be superior to all liens, encumbrances, debts, judgments, claims, overriding royalty and production payment burdens and other obligations created or incurred by UTAH PENN and asserted against the assigned property. Any interest in the assigned property reverting to M.E.R.C. or reassigned to M.E.R.C. shall be free and clear of all such liens, encumbrances, debts, judgments, claims, overriding royalties, and production payment burdens and other obligations.
- 22. TERMINATION OF RIGHTS. Time is of the essence in this Agreement. The breach by UTAH PENN of any material obligation or requirement arising hereunder shall subject this Agreement to termination at the option of M.E.R.C. if UTAH PENN rails or refuses to comply with such obligation or requirement within thirty (30) days after notice by M.E.R.C. to UTAH PENN of such breach.

## 23. MISCELLANEOUS.

- 23.1 UTAH PENN will use its best efforts in accordance with good oil field practices to complete each of the wells as a producer of oil or gas.
- 23.2 UTAH PENN will reimburse M.E.R.C. for the full amount of any rentals applicable to the checkerboarded land, as herein defined, paid by M.E.R.C. under the terms of any lease during the term of this Agreement.
- 23.3 The operating agreement to be used shall be the standard AAPL Form 610 Model Form Operation Agreement, 1977, but such use shall not allow the change of costs beyond those allowed hereunder.
- 23.4 As used herein, oil and gas shall refer to all petroleum products including casing, head gas and distillate.

- 23.5 All of the provisions in this Agreement shall apply to any wells drilled by UTAH PENN on any land in the area of interest.
- 23.6 This Agreement is personal and not assignable without M.E.R.C.'s written consent which consent shall not be unreasonably withheld.
- 23.7 All rights and interest not expressly granted to UTAH PENN are reserved to M.E.R.C.
- 23.8 All agreements herein shall constitute covenants running with the land assigned and shall be binding upon the parties hereto, their successors and assigns.
- 23.9 This Agreement shall continue for and during the term of the leases to be assigned as provided for herein and for the term of any extension or renewal thereof.
- 23.10 No change, modification or alteration of this Agreement shall be valid unless the same be made or specified in writing signed by the parties hereto and no course of dealing between the parties shall be construed to alter the terms hereof.
- 23.11 From time to time M.E.R.C. may require UTAH PENN to provide lien waivers from any and all of its contractors, sub-contractors or material suppliers.
- 23.12 This Agreement is subject to the terms of the Operating Agreement dated November 18, 1981, between LSB Partnership and the Lessees, which Agreement has been assigned to M.E.R.C.

IN WITNESS hereof the Parties hereto have executed this Agreement on the date above written.

UTAH PENNSYLVANIAN OIL COMPANY

By Rement . Miles

MILAGRO ENERGY RESOURCES COMPANY

Managing Partner

312 Mesa Grande Dr. Grand Junction, CQ March 8, 1982

Re: Well # Chiretta 1
Sec 22, T 15S R. 10 E.
Carbon County, Utah

Chiretta #2 Same legal

Easton #1
Sec 27, T 15S R. 10 E.
Miller Creek Carbon Co.
Utah

State of Utah Natural Resources & Energy Oil Gas & Mining 4241 State Office Bldg., Salt Lake City, Utah 84114

Attn: Cari Furse

Dear Cari:

Reference to the above named wells - Chiretta # 2 and Easton #1 have not yet been drilled.

Chiretta #1 was drilled and gas encountered. The well was logged and I am in the process of obtaining the log and other pertinent information to render a report to your department.

Utah Penn underwent a recent reorganization and the reports required regarding these wells were not reported as required. We will correct this.

Chiretta #2 and Easton #1 will be drilled in June, 1982 according to present schedule.

Very truly yours, James P. Kyle, Representative,

Utah Penn Oil Co.

MAR 10 1582

DIVISION OF OIL, GAS & MINING

POOR GOPY



Scott M. Matheson, Governor Temple A. Reynolds, Executive Director Cleon B. Feight, Division Director

4241 State Office Building • Salt Lake City, UT 84114 • 801-533-5771

February 18, 1982

Utah Penn Att: Jim Kyle, 312 Mesa Grande Grand Junction, Colorado 81503

Re: Well No. Cheritta #1
Sec. 22, T. 15S, R. 10E
Carbon County, Utah

Well No. Miller Creek Cheritta #2 Sec. 22, T. 15S, R. 10E Carbon County, Utah

Well No. Miller Creek Easton #1 Sec. 27, T. 15S, R. 10E Carbon County, Utah

#### Gentlemen:

In reference to the above mentioned wells, considerable time has gone by since approval was obtained from this office.

This office has not received any notification of spudding. If you do not intend to drill these wells, please notify this Division. If spudding or any other activity has taken place, please send necessary forms. If you plan to drill this location at a later date, please notify as such.

Your prompt attention to the above will be greatly appreciated.

Very truly yours,

DIVISION OF OIL, GAS AND MINING

Cari Furse Clerk Typist

#### MILAGRO ENERGY RESOURCES COMPANY P.O. Box 934 Albuquerque, NM 87103

August 17, 1982

Mr. Milton L. Lowmaster Vice President Utah Pennsylvanian Oil Company 1901 New Street Independence, KS 67301

RE: Farmout Agreement

Dear Mr. Lownaster:

This letter is to serve as notification that Milagro Energy Resources Company, hereinafter referred to as "MERC", is giving Utah Pennsylvanian Oil Company, hereinafter referred to as "Utah Penn" thirty (30) days notice of its intention to terminate the Farmout Agreement dated April 12, 1982 between MERC and Utah Penn. This termination is pursuant to Paragraph 22 of that Agreement wherein it states that if Utah Penn fails or refuses to comply with any material obligation or requirement that it has under the Agreement, and does not cure such breach within thirty (30) days of notice by MERC, MERC has the right to terminate. The obligations and requirements of the Farmout Agreement which Utah Penn has failed to comply with are as follows:

- 1. A Ten Thousand Dollar (\$10,000.00) payment in cash or cashier's check was to be delivered to an escrow agent of MERC's choice upon the execution of the Agreement as an earnest money payment under the Agreement. This amount has never been paid.
- 2. Immediately upon the execution of the Agreement, Utah Penn was to order five (5) drilling title opinions for five (5) locations of test wells. The Agreement states that time is of the essence and five (5) test wells are to be completed by September 30, 1982. It has been four (4) months since the execution of the Agreement, and Utah Penn has only drilled one test well. The drilling title opinions on the remaining four (4) wells, have either not been completed, or if completed, have not been acted upon. Four (4) months is an

Mr. Milton Lowmaster August 17, 1982 Page Two

unreasonable period of time to delay the drilling operation if the five wells are to be completed by September 30, 1982 as required by Paragraph 4 of the Agreement. Paragraph 3 of the Agreement specifically states that Utah Penn shall have the obligation to obtain a drilling title opinion at its sole expense for each well to be drilled hereunder with all reasonable dispatch. Clearly, Utah Penn has failed to diligently pursue obtaining title opinions or to commence drilling.

- 3. Utah Penn has failed to furnish MERC with copies of the drilling title opinions as required by Paragraph 3 of the Agreement. Utah Penn has never explained the status of the opinions. Paragraph 3 requires that all title information obtained by Utah Penn should be immediately furnished to MERC.
- Paragraph 2 of the Agreement states that "upon the issuance of each drilling title opinion that shows that MERC will be able to assign good and merchantibile title in the oil and gas leases or portion of oil and gas leases that are described in Exhibit "A" hereto that are involved in each 160 acre test well location, Utah Penn shall pay over to MERC \$17,000.00 in cash or cashier's check for a total of \$85,000.00, including the earnest money payment." Because the drilling title opinions have been obtained by Utah Penn and because Utah Penn has failed to disapprove those title opinions, it can only be assumed that they reveal MERC can deliver good and merchantible title. Thus. presently due and owing to MERC, in addition to the \$10,000.00 earnest money, \$75,000.00 in cash or cashier's check. This money was to become a portion of the drilling completing and operating costs of the first producing well or wells drilled, but pursuant to the terms of Paragraph 2, it becomes partial damages for Utah Penn's breaches and is forfeited to MERC. MERC hereby makes demand upon Utah Penn for \$85,000.00 in cash or a cashier's check.
- 5. In Paragraph 20 of the Agreement, Utah Penn agreed to comply with the expressed and implied obligations of each lease made subject to the Agreement. Because of Utah Penn's failure to comply with the above-described provisions of the Agreement, there is a strong probability that it will not be able to

Mr. Milton Lownaster August 17, 1982 Page Three

comply with the provisions of the leases subject to the Agreement. Utah Penn is hereby put on notice that should any interest of MERC in said leases be dissolved because of the lack of action by Utah Penn, they will be held responsible for all injuries arising out of their failure to comply with their lease provisions as required by this Agreement.

Very truly yours,

Lewis O. Campbell Managing Partner

LOC/mlg

cc: John Patterson
Raymond McKee
bcc: David Livingston

#### **AFFIDAVIT**

STATE OF NEW MEXICO )
) ss.
COUNTY OF BERNALILLO)

LEWIS O. CAMPBELL, being first duly sworn upon his oath, deposes and states:

- 1. That I am the managing partner of Milagro Energy Resources Company to whom has been assigned the right to operate the NW<sub>4</sub> of Section 22, Township 15 South, Range 10 East, SIM.
- 2. That on April 12, 1982, Milagro Energy Resources Company entered a Farmout Agreement with Utah Pennsylvanian Oil Company, a copy of which Farmout Agreement is attached hereto as Exhibit "A" and made a part hereof.
- 3. In accordance with the Paragraph 22 of the Farmout Agreement, in the event Utah Pennsylvanian Oil Company defaulted on the Farmout Agreement, Milagro Energy Resources had the right to give Utah Pennsylvanian Oil Company a written thirty (30) day notice of default. In the event Utah Pennsylvanian Oil Company failed to cure the default within thirty (30) days of such notice in accordance with the terms of the agreement, the Farmout Agreement automatically terminated.
- 4. On August 17, 1982, affiant caused to be sent to Utah Pennsylvanian Oil Company at their proper address and also to the address of their attorney, a notice of default, a copy of which is attached hereto as Exhibit "B".
- 5. That no effort was made by Utah Pennsylvanian Oil Company to correct the default under the Farmout Agreement during the thirty (30) days period nor at any time subsequent thereto.

6. That Utah Pennsylvanian Oil Company failed to cure their default	s
under the Farmout Agreement and the agreement is therefore terminated an	d
void.	
SUBSCRIBED AND SWORN to before me this 164 day of December 1982, by Lewis O. Campbell, managing partner of Milagro Energy Resource	
Company.  Notary Public Joseph	4
My Commission Expires:	



3

# STATE OF UTAH

DIVISION OF OIL, GAS, AND MINING			5. LEASE DESIGNATION AND SERIAL NO. $Fee$ 6. IF INDIAN, ALLOTTES OR TRIBE NAME		
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4. LOCATION OF WELL (Report locat See also space 17 below.) At surface	NOW CLEARLY RING IN ACCORD	ence with any State ?	equirements.	Wildcat	L, OR WILDCAT
1980' FWL; 720' R10E, Salt Lake		, Sec. 22,	T15S,	11. asc., 7. a., k., NE 2 NW 4 T15S B10	<b>S</b> ec. 22
14. PERMIT NO.	15. BLEVATIONS (S)	now whether of, st, cs.	eta.)	12. COUNTY OR PA	
43-007-30064	5520* 0		<b></b> ,	Carbon	Utah
16. Charle	Appropriate Box To	Indiana Nas	-( N D	- Osh D	·
	Appropriete box 10	Indicate (4diffe		SEQUENT REPORT OF:	
TEST WATER SHUT-OFF					
FRACTURE TREAT	PULL OR ALTER CASIN MULTIPLE COMPLETE		WATER SHUT-OFF		NG WELL
SHOOT OR ACIDIZE	ABANDON*	X Location	FRACTURE TREATMENT	ABANDO	<del>     </del>
REPAIR WELL	CHANGE PLANS		(Other)		
(Other) Change of			Completion or Reco	uits of multiple complet empletion Report and Log	g form.)
	is lease has il Company	been change 9 81503	DEC	20 1982	
P. O. Drawe Albuquerque	r 934 , Mew Mexico	87103	OIL, GAS	SION OF S & MINING	
It is requested th documentation for to drill will be s Milagro Energy Res	the change of ent to you un	operator a der seperat	and the termi te cover from	nation of th Mr. Lewis C	
Should you require (307) 234-8647, Ho	further info me Address -	rmation, pl 3651 Crysti	ease contact e Lane, Casp	Ben Buh - T Der, Wyo. 82	elephone 609.
18. I hereby certify that the foregoi	ng is true and correct				0 (47 (00
SIGNED Ben Buch		TITLE Consult	ing Pet. Eng	ineer parm 1	2/17/82
(This space for Federal or State	office use)				
APPROVED BY	IF ANY:	TITLE		DATE	